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Milk Distributors



Sales and Costs

October-December 1956

U. S. DEPARTMENT OF AGRICULTURE
✓ Agricultural Marketing Service
✓ Marketing Research Division

MILK DISTRIBUTORS' SALES AND COSTS

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: This report is the second of a series based upon information :
: obtained from distributors of fluid milk and cream products.* :
: These distributors are subscribers to a cost comparison ser- :
: vice which furnished the Department with tabular data for :
: analyses. A uniform accounting system is used and informa- :
: tion is given on standardized forms. Data reported include: :
: Costs and quantities of raw milk and other raw materials; :
: prices and quantities of products sold; and operating costs. :
: :
: The firms selected are considered to be typical in the fol- :
: lowing characteristics: Privately owned, moderate size and :
: chiefly single plant firms. Very small firms, national :
: chains, and producer-distributors are not included. :
: :
: All major geographic areas of the country are represented. :

During the past five years milk distributors' sales value of milk and cost of materials for processing and resale of milk have remained fairly level. On the average, sales value has varied less from year to year and from quarter to quarter than has cost of goods sold. In spite of this, gross margins have shown relatively small variations. Operating costs have increased steadily, with some seasonal variation; net margins, generally, have decreased.

SALES VALUE NEARING 1952 HIGH

Sales value of dairy products, per hundred pounds of milk, averaged \$11.22 in 1956. Compared with annual averages during the last five years, 1952-56, the 1956 value approaches the high of \$11.32 experienced in 1952. The postwar low of \$10.69 occurred in 1954 (table 1). In October-December, 1956, the sales value was \$11.31, an increase of \$0.06 over the same quarter a year earlier, and the highest since the last quarter of 1953.

*The first report was issued as AMS-180.

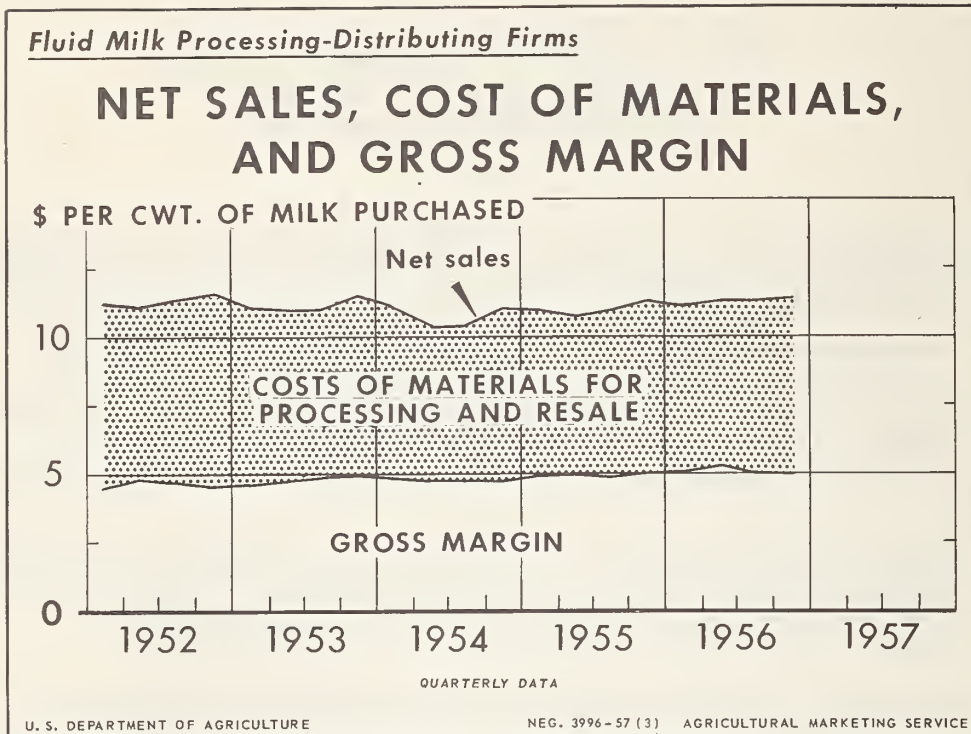


Figure 1

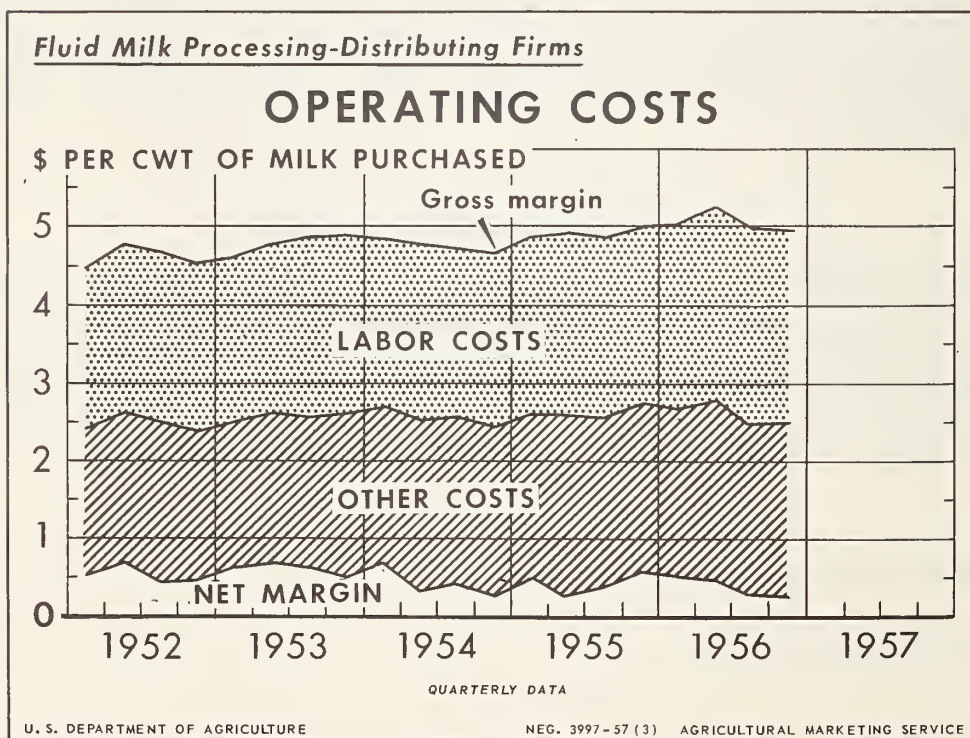


Figure 2

RECENT INCREASES IN RAW MATERIALS COSTS

Costs of materials purchased for processing and resale were at their highest in 1952; these costs declined over 11 percent by 1954 and, in 1956, were still about 8 percent below the 1952 level. Most of the change occurred in the cost of raw milk and cream; this cost varied from a high of \$6.13, per hundred pounds of milk, in October-December 1952, to a low of \$4.76 in July-September 1954, a drop of over 22 percent. In October-December 1956, raw milk and cream costs were \$5.56. As a percentage of sales value of product, raw milk and cream declined from about 52 percent in 1952, to about 47 percent in 1956. Other raw material costs changed but little; during this period gross margin has increased from 41 percent to 45 percent of sales.

INCREASING OPERATING COSTS

Operating costs have increased more rapidly than gross margin in both absolute amounts and percentage of sales value of products. Such costs, per hundredweight of milk, rose from a low of \$3.94 in the first quarter of 1952 to a high of \$4.76 in the second quarter of 1956, an increase of over 20 percent. On a year-to-year basis, such costs have increased each year and in 1956 accounted for 42 percent of the sales value of product, up nearly 6 percentage points from 1952. Nearly all of the increase has occurred in salaries, wages, and commissions; containers; and rent, repairs, and depreciation. This increase is affected by the changes in pattern of sales, type and quality of products, and size of the firms. The cost of containers has increased about 20 percent from 1952 to 1956, and continues to be about 6 percent of operating costs. Repairs, rent, and depreciation have increased about 30 percent from 1952 to 1956, relatively more than other expenses. About half of the total increase in costs has occurred in salaries, wages, and commissions.

Net margin, the remainder for payment of income taxes and return on invested capital, has declined about 40 percent from the high in 1953 to the low in 1956. As a percentage of sales, the decline was from 5.3 percent to 3.2 percent.

LABOR COSTS

Salaries, wages, and commissions, second only to raw milk and cream costs for milk distributors, have increased about 20 percent in the last five years. Labor cost accounted for 21.7 percent of sales value of product in 1956 as compared to 19.0 percent in 1952; thus, in terms of sales value of product, the cost of labor has increased 14 percent during this period.

Table 1.--Trends in operating costs per hundred pounds of milk and cream processed by a selected group of dairy firms, by years, 1952 to 1956, and by quarters, January-March 1956 to October-December 1956

| Cost item | 1956 | | | | | | | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|-----------------------|-----------------------|------------------------|-----------------------|--|--|--|
| | : 1952 : | : 1953 : | : 1954 : | : 1955 : | : 1956 : | : Jan.- : : Mar. : | : Apr.- : : June : | : July- : : Sept. : | : Oct.- : : Dec. : | | | |
| Net sales..... | Dollars 11.32 | Dollars 11.12 | Dollars 10.69 | Dollars 10.95 | Dollars 11.22 | Dollars 11.07 | Dollars 11.25 | Dollars 11.24 | Dollars 11.31 | | | |
| Cost of raw materials | | | | | | | | | | | | |
| Raw milk and cream..... | 5.85 | 5.43 | 5.07 | 5.12 | 5.30 | 5.27 | 5.07 | 5.29 | 5.56 | | | |
| Other..... | .86 | .90 | .86 | .94 | .88 | .80 | .96 | .98 | .81 | | | |
| Total..... | 6.71 | 6.33 | 5.94 | 6.05 | 6.18 | 6.07 | 6.03 | 6.27 | 6.37 | | | |
| Gross margin..... | 4.61 | 4.79 | 4.75 | 4.91 | 5.04 | 5.00 | 5.22 | 4.97 | 4.94 | | | |
| Operating costs | | | | | | | | | | | | |
| Salaries, wages, and commissions 2/..... | 2.15 | 2.19 | 2.21 | 2.28 | 2.43 | 2.32 | 2.44 | 2.50 | 2.46 | | | |
| Containers..... | .60 | .62 | .65 | .70 | .72 | .71 | .76 | .69 | .71 | | | |
| Operating supplies..... | .30 | .32 | .35 | .32 | .28 | .28 | .29 | .29 | .28 | | | |
| Repairs, rent, and depreciation..... | .50 | .52 | .57 | .60 | .64 | .63 | .65 | .64 | .65 | | | |
| Taxes..... | .06 | .06 | .06 | .06 | .05 | .05 | .05 | .05 | .05 | | | |
| Insurance..... | .02 | .02 | .03 | .04 | .04 | .03 | .04 | .03 | .04 | | | |
| Services..... | .16 | .19 | .19 | .18 | .17 | .15 | .18 | .19 | .16 | | | |
| Advertising..... | .15 | .15 | .16 | .18 | .19 | .19 | .20 | .18 | .18 | | | |
| General..... | .15 | .13 | .13 | .14 | .16 | .15 | .15 | .16 | .18 | | | |
| Total..... | 4.09 | 4.20 | 4.35 | 4.50 | 4.68 | 4.51 | 4.76 | 4.73 | 4.71 | | | |
| Net margin 3/..... | .52 | .59 | .40 | .40 | .36 | .49 | .46 | .24 | .23 | | | |
| Firms reporting..... | 43 | 51 | 75 | 83 | 80 | 80 | 80 | 80 | 80 | | | |

1/ Revised.

2/ Includes State unemployment, Federal old age, workmen's compensation, and employee benefits.

3/ Net returns to owners before income taxes.

Delivery costs account for over 60 percent of the total salaries, wages, and commissions (table 2). In addition, it can be assumed that a substantial part of the administrative cost arises from the delivery function. Most of the increased cost of labor has occurred in the delivery function.

Table 2.--Salaries, wages, and commissions, per hundred pounds of milk purchased for processing and resale, July-October 1955 to October-December 1956

| Item | 1955 | | 1956 | | | |
|-----------------------------------|------------|-----------|----------|---------|------------|-----------|
| | July- | October- | January- | April- | July- | October- |
| | September: | December: | March | June | September: | December: |
| | Dollars | Dollars | Dollars | Dollars | Dollars | Dollars |
| Salaries, wages, and commissions: | | | | | | |
| Procurement..... | 0.03 | 0.03 | 0.03 | 0.03 | 0.03 | 0.03 |
| Processing..... | .56 | .54 | .54 | .58 | .59 | .57 |
| Delivery..... | 1.33 | 1.31 | 1.33 | 1.40 | 1.43 | 1.43 |
| Administrative..... | .29 | .29 | .29 | .30 | .32 | .31 |
| Total..... | 2.21 | 2.17 | 2.19 | 2.31 | 2.37 | 2.34 |
| Fringe salary and wage expenses: | | | | | | |
| State unemployment: | 0.01 | 0.01 | 0.02 | 0.02 | 0.02 | 0.01 |
| Federal old age.... | .02 | .02 | .04 | .04 | .04 | .04 |
| Workmen's compensation..... | .02 | .02 | .03 | .03 | .03 | .03 |
| Employee benefits : | .03 | .03 | .04 | .04 | .04 | .04 |
| Total..... | .08 | .08 | .13 | .13 | .13 | .12 |
| Salary and wage cost : | 2.30 | 2.25 | 2.32 | 2.44 | 2.50 | 2.46 |

Fringe salary and wage costs add between 5 percent and 6 percent to the labor cost. During the last two quarters of 1956 these fringe costs were more than 1 percent of the sales value and were about equal to net profits left after payment of income taxes.

